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ABSTRACT

Based in part on interviews conducted in 32 municipalities, this paper is intended to provide information to public managers, policy analysts, and others on methods for improving the management of retrenchment. A model summarizes how public organizations recognize and attempt to manage financial crises and prolonged financial stress. Some cutback management options are presented, and an approach for assessing the severity of financial crises and strategies is provided. Among the issues and management apppoaches analyzed are program reduction and termination costs and benefits, planning, evaluation and participation, centralization of decision-making, and improving public-sector marketing. General conclusions drawn are that (1) greater investment in market research and marketing is needed in the public sector, (2) financial crises must be adjusted to and managed cognizant of the rigidities and constraints that characterize bureaucratic organizations, and (3) inability to adapt to environmental change and new social conditions reduces the probability of survival for public agencies. (Author/MLF)

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PHASES OF RECOGNITION AND MANAGEMENT OF FINANCIAL CRISIS IN PUBLIC ORGANIZATIONS©

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Phases of Recognition and Management of Financial Crisis in Public Organizations

Abstract

This article provides a model of the manner in which public organizations recognize and attempt to manage financial crises and prolonged financial stress. It presents some cutback management options, and provides an approach for assessing the severity of financial crises and strategies. Among the issues and management approaches analyzed are program reduction and termination costs and benefits, planning, evaluation and participation, centralization of decision making, and improving public sector marketing.

Among the general conclusions drawn are that (a) greater investment in market research and marketing is needed in the public sector, (b) finanical crises must be adjusted to and managed cognizant of the rigidities and constraints which characterize bureaucratic organizations, and (c) inability to adapt to environmental change and new social conditions reduces the probability of survival for public agencies.

PHASES OF RECOGNITION AND MANAGEMENT OF FINANCIAL CRISIS IN PUBLIC ORGANIZATION*

There is presently some measure of public pressure to reduce the size and scope of government. Government expenditures have been limited by various factors including an economic recession that has reduced revenues for state and local governments, passage of property tax limitation measures, and reductions in federal transfer payments and social program outlays implemented by the current Presidential administration.

The dilemma in facing cutback in the public sector results in large part from the fact that over the past thirty years our society and economy have become accustomed to and dependent upon growth in government. We are not at all accustomed to the prospect of reduction or termination in the public sector. Growth fits well with both the motives of political decision makers seeking support on the basis of providing jobs, public works projects and welfare assistance, and of citizens desiring the benefits of political expenditure decisions. However, the retrenchment game does not appear particularly attractive to politicians no longer able to reward constituents, to public managers desiring to preserve their programs and jobs, or to citizens benefitting from the provision of transfer payments and services by government. It is little wonder that we avoid thinking about retrenchment, given that its outcomes are likely to displease great numbers of citizens and political actors. Aversion to change from a comfortable, munificent and stable state to a painful, tight-fisted and uncertain state is quite understandable.

Among the issues that must be addressed when governments have fewer revenues to spend are the following: Should the scope of public policies, programs and organizations be reduced? Why do government policies become immune to review, modification and termination? How can we tell

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* This paper is based, in part, on interviews conducted with public officials, managers, members of citizen advisory committees and others in thirty-two municipalities over a period of several years.

which policies and programs should survive and which should be modified, reduced or terminated? How should decision makers attempt to reduce or terminate public policy programs or organizations where this appears desirable?

Public managers and policy analysts are beginning to face the necessity for reducing policies and programs. However, few public managers have much experience in cutback management: This paper is intended to provide information to public managers, policy analysts, and others on methods for improving the management of retrenchment.

Cutback Management Options

Analysis of public financial and program retrenchment may be divided into (a) the causes of financial crisis, (b) methods for managing financial crises, (c) issues and dilemmas faced by public administrators in attempting to manage retrenchment, and (d) methods to both achieve and avoid policy, program and organizational termination. The second of these topic areas, methods for managing financial crisis, is the subject of most immediate concern to public managers and analysts.

The range of non-mutually exclusive cutback management alternatives includes (1) doing nothing, which is likely to work only for a short time if the financial crisis persists, (2) increasing revenues, (3) reducing expenditures, (4) increasing employee and organizational productivity, and (5) a set of more innovative responses that are productivity related. The fifth category of productivity related responses includes (a) cooptation of other organizations, programs and constituents, (b) cooperation, (c) volunteerism, (d) program or mission reorganization and merger, (e) joint purchase and service agreements with other governments, (f) contracting, (g) privatization, and others.[1]

Before developing plans to manage retrenchment, prudent managers will attempt to define the seriousness of financial crisis in terms of length of time and degree of revenue shortfall relative to planned expenditures. A general framework to define the extent of financial crisis has been suggested by Schick.[2] A modification of this framework produces the following categories of financial crisis:

(a) Relaxed scarcity -- where revenues in constant dollars (C$) just equal expenditures for a period of one to five years;

(b) Chronic scarcity -- where revenues (C$) fall short of proposed expenditures by less than 5 percent for a period of one to five years;

(c) Short-term acute scarcity -- where revenues (C$) fall short of proposed expenditures by greater than 5 percent for one or two years; and

(d) Prolonged acute scarcity -- where revenues (C$) fall short of proposed expenditures by greater than 5 percent for more than two years.

Two additional categories may be added where they occur (e) long-term austerity and (f) financial recovery and continued austerity. However, definitions of these states are less precise than those for categories (a) through (d). Long-term austerity may be defined as a condition where revenues and expenditures are constrained in constant dollars relative to previous patterns of growth for a period of five years or longer. Long-term austerity is a condition that many governments are likely to face over the next decade and perhaps beyond. Financial recovery and continued austerity is the condition in which governments have adjusted to reduced revenues through reduced expenditure, program modification, and improved financial management. Also, in this context it may be useful to note that the terms financial stress and crisis may be differentiated to indicate the former as a state in which difficulty is experienced in balancing revenues and expenditures over a long period of time, while the latter indicates a sudden event in a short period, e.g., inability to meet debt service payments resulting in default on bonds and concommitant loss of credit rating and borrowing capacity. In this paper the term financial crisis is used to characterize both stress and crisis conditions as defined above unless otherwise stated.

The two most prominent retrenchment management options are to increase revenues and to reduce expenditures. Included in the revenue option is the examination of existing revenue sources, with more attention to specification of political support for alternative increase opportunities, to pricing policies and the elasticity of demand of the consumers of public services, and to the equity implications of price increases. Recognition that pricing policy is of strategic importance may be a revelation to some public managers accustomed to the idea that

pricing ought to concern only private sector managers. In addition, the revenue option includes the search for new revenue sources, including new fees and services charges, and definition of what may be termed the "revenue rights" between public organizations and different layers of government. This latter task creates a new set of challenges in intergovernmental relations.

General expenditure reduction options include across-the-board reduction (ABR), specific program reduction (SPR), and program-policy merger and termination (PMT). Expenditure reduction typically includes careful examination of legal, regulatory and other intergovernmental mandates to differentiate those that may be ignored without incurring law suits and loss of revenue.

The additional management options listed above (increasing productivity and various others included under the rubric of innovative responses) are discussed subsequently in presentation of a general model of phases of recognition and management of financial crisis in public organizations. For those interested in studying other management options in depth, a body of work too extensive to summarize here has emerged in the past few years.[3] This literature draws heavily upon applied social science research conducted over the past thirty years and longer in political science, economics, political economy, public administration, sociology, organizational theory and behavior, anthropology, psychology and other disciplines. While studies of retrenchment in public organization produced by researchers in the field of public policy and management have a distinctly professional and applied focus, this work has its origins in and owes a considerable debt of gratitude to traditional social science theory.

Phases of Recognition and Management of Financial Crisis

A general sequence of events appears to characterize the recognition and management of financial crisis in public organizations. Figure 1 provides a summary of phases of recognition and management characteristic of public organizational response to financial crisis and prolonged stress. The sequence of events represented in figure I constitutes a scenario-based model of financial stress coping methods in time sequence. As a general model it is subject to all of the errors of generalization, omission and potential inapplicability to specific cases

and circumstances that pertain to models of this type. Despite these weaknesses, the model is useful for identifying and ordering many of the events that appear to characterize financial crisis management in public organizations. Discussion of phases of recognition and management in this essay does not follow the model strictly. Rather, this paper attempts to emphasize the most significant components of the model in an integrative way, similar to the manner in which financial crisis is encountered by public managers. Rarely if ever are financial crises or management responses ordered as neatly as Table 1 might suggest.

[Insert Table I]

The response in the initial phase of financial crisis typically involves ignoring that a crisis exists. This is followed by short-term and ad hoc measures to reduce spending, accompanied by efforts to assign blame for the crisis. At this point there may occur a general displacement of organizational leadership attention, work group activity and personal stress to topics of lesser importance in attempt to avoid making hard choices over program cuts. Expenditure authority and appropriations for "soft" services are reduced first, and cuts are made that are relatively invisible to the public, for example, in support and supply budgets and in capital depreciation funding. These cuts are usually demoralizing to employees and reduce the ability of the organization to cope with financial stress over the long haul. Ignoring maintenance and depreciation may lead to higher repair and replacement costs later. Similarly, where significant reductions are made in organizational development, personnel education and training, an immediate cost is loss of morale. Future costs for education and training are likely to be higher as a result of postponement of necessary staff development. However, the type of reductions in expenditure may usually be made without significant political struggle.

Given that financial crisis conditions persist, the next phase involves making deeper across-the-board reduction (ABR) in program support budgets, perhaps accompanied by hiring and salary freezes and attempts to reduce salaries. Organizations now begin to face the choice between reducing employee compensation, or cutting employees. There is considerable disagreement among public managers, academics and others over which strategy is best--across-the-board cuts including reductions

Figure 1: Phases of Recognition and Management of Financial Crisis in Public Organizations

Timing and Degree of Scarcity	Phase	Events (under assumption that revenues continue to be reduced through phase 7)
6 months	1.	Ignoring that a crisis exists; moderate reduction in expenditures; crisis termed "only temporary."
to	2.	Short-term across-the-board expenditure cuts made and attempts to increase revenue from existing sources instituted.
2nd year	3.	Recognition that crisis may persist for longer period (more than one year); casting the blame for causes of the crisis; ad hoc "invisible" expenditure reductions (e.g., in capital plant maintenance cr depreciation funding).
Relaxed and chronic scarcity		
1st year	4.	Broader across-the-board expenditure reduction; salary and hiring freezes imposed; intergovernmental revenue assistance sought; new sources of revenue sought; efficiency-oriented program cost studies instituted; workload cost measures improved; "softer" non-essential services reduced; mandated programs examined for reduction.
to	5.	Across-the-board reductions continued, accompanied by additional reductions in specific programs; some employee layoffs occur; improvements sought in revenue forecasting; program and policy evaluation undertaken more seriously; unions and employee organizations resist further cuts in salary; "hit lists" of programs for possible termination are developed based upon traditional organizational criteria; the rumor mill picks up steam and employee tension increases. Employee training and development, staff services and non-essential public services reduced further or eliminated; borrowing capability weakened or lost; some mandated programs discontinued.
3rd year		
	6.	Across-the-board and specific program reductions cause more employee layoffs and some job terminations; specific programs are terminated with some functions absorbed by other units; some employees transfer to other units; employee morale and productivity drops; some skilled and highly valued employees seek jobs outside the organization; negotiations are held over trade-offs between salary reductions versus more employee layoffs and terminations; organization heads recognize need for better and more comparable program information; user fees increased or instituted.
Chronic to short-term acute scarcity		
	7.	Further program terminations contemplated or implemented; leaders recognize need for longer-term strategic planning to integrate program and financial strategies; need for restoring some expenditures recognized (physical plant maintenance and capital investment, employee training); program priorities and decision criteria established; consultant assistance sought; revenue base and structure analysis begins; organizational

		leaders use political contacts and leverage in attempt to gain revenues or avoid further reductions; credit ratings weakened;
Prolonged acute scarcity		processes developed to improve employee participation in program/service delivery planning and evaluation; fees, charges, and other discretionary revenues increased; organizational leadership may change.
3rd year	8.	Development and implementation of long-term program and financial planning; organization missions and objectives renegotiated; new revenue sources expand revenues to balance
to		budget at reduced expenditure level; employee layoffs and terminations discontinued; organization invests in market analysis to complement internal program evaluation; pricing policies, service demand changes and segmentation studied, and budgetary strategies examined and modified. Continued austerity
5th year		conditions accepted; reorganization plans considered; credit ratings stabilized; greater involvement of external participants.
Prolonged acute scarcity to long-term austerity	9.	Implementation of program, financial and market plans; reorganization of functions and responsibilities undertaken; revenues and expenditures balanced for one or two successive years; some service responsibilities eliminated through contracting, privatization and other means; greater citizen involvement in service prioritization over long-term; salary increases instituted and some new employees hired in specialized areas; attempts at marketing new organization missions and objectives undertaken. Employee productivity and morale improved; confidence in leadership strengthened.
Beyond 5th year	10.	Revenues and expenditures balanced over multi-year period; renewed capability for borrowing results from improved credit rating; some old debt refinanced; search for new solutions to social problems; development and testing of "utopian" technologies and service approaches; reformulation of intergovernmental service obligations; intergovernmental revenue authority negotiated and shifted; recognition that some service and revenue problems will persist; improvements made in integration of program and comprehensive financial planning; citizen support for organization improves.
Long-term austerity and financial recovery		

in specific categories of expenditure such as salaries, versus reductions targeted to specific program services. Proponents of both smoothing the impact of the across-the-board cuts versus the more dramatic program termination and merger approach argue the benefits of their respective alternatives. Supporters of across-the-board cuts and salary reduction allege that where union contracts and other employee compensation reduction constraints may be compromised, organizations will be better off if they reduce their budgets evenly, relying on normal employee attrition, withdrawal of vacant positions, hiring and salary increase delays or freezes, cuts in supplies and support budget and services, and physical plant maintenance deferral to reduce expenditure levels.

Advocates of program termination argue that the across-the-board strategy weakens organizations throughout and is ineffective in that high-demand programs and high-quality personnel are cut the same amount as weaker ones. Further, they maintain that the ABR approach is often inequitable in that it does not take into account public service needs and preferences. The advantage of the program termination approach is thought to be that it enables planning and the establishment of priorities to guide expenditure reduction with the goals of maintaining (a) high quality services and the most valuable employees, (b) responsiveness to public service demand. Because program termination often involves merger and reorganization, this strategy requires advanced planning, a reasonably sophisticated information base for decision making, and considerable negotiation. It also requires definition of critical mass program operations levels, i.e., resource levels below which programs cannot operate and still achieve their objectives satisfactorily.

While program termination may appear on face value to be a more cost effective strategy, research on termination effects indicates that the long-term costs of program termination are higher than most advocates of this approach acknowledge.[4] When recruitment, training, employee replacement costs, loss of morale, employment compensation for terminated employees and hard-to-measure personal and social instability costs caused by layoff and unemployment are considered, reduction through across-the-board cuts and attrition may be more cost-effective than program termination. Whether social costs are added to internal organ-

izational costs is of considerable importance in comparing the cost-effectiveness of the two approaches. In addition, whether organizations evaluate these two general strategies on the basis of cost savings in the short-term or cost effectiveness or net benefit over a longer period is of crucial importance in choosing one approach over the other.

Generally, public organizations and employees appear to prefer the across-the-board and attrition approach, with non-health and safety related service units (i.e., non-essential services) cut first and the lasthired employees the first fired. Unfortunately, the application of length of service rather than merit criteria typically eliminates less experienced and younger staff. Further, employees cut in this phase often include a higher proportion of women and minorities than is represented in the total organizational workforce. There also may be an accompanying loss of highly-skilled, longer-term employees who simply have better and less stressful employment opportunities elsewhere.

Some public organizations have developed procedures to mix length of service and merit criteria in determing layoff or employment termination schedules. The employee performance evaluation system may be designed so that employees generate service credits for high performance ratings. These credits are then added to other credits earned through length of service and total service credits are then used to define employee layoff order and rights to "bump" other employees in the same or similar job classification elsewhere in the organization. The service credit system also may be used to set priorities for employee reassignment to new positions within the organization, either at the point where personnel cuts are made initially or after a period of layoff.

While reductions in force (RIF's) often include the provision of bumping rights across organizational units, unlimited bumping is stressful, disruptive and may cause serious losses in employee morale and productivity. The "single bump within class" system that restricts movement rights to a single choice and compares the qualifications of those seeking to bump other employees with requirements for the position in question appears to be a preferable option. Union contracts may constrain the close application of qualification and requirement definitions, as may civil service rules.

One of the most important dimensions of personnel management under

cutback conditions is the extent to which the organization invests in retraining, education and placement of employees whose jobs have been cut. Education and retraining may be necessary to enable reassignment of employees to new positions within the organization. Similarly, investment in placement services within the organization, and assistance provided in job search outside the organization is an activity that is costly but defensible not only from the perspective of responsible management but also because it builds morale and promotes productivity to employees whose jobs remain, especially for those that may continue to face the threat of job loss in the future.

o Policy and Program Termination

Despite the difficulty and disadvantages of outright policy termination, if financial crisis conditions persist and revenues continue to be reduced, many organizations are forced to terminate some programs and employees. At this phase of cutback management, organizations often do not have program performance data of sufficient amount, quality and specificity to make rational program comparisons and choices. Cuts are often made at this point on the basis of length of tenure of the program or unit, with the newest programs becoming the most vulnerable because of their lack of deep roots into the organization and its base budget. Another factor may be that the newest units may be more innovative and less like the rest of the organization in mission, operational procedures, employee composition and background and in other ways.

Other prominent decision rules that operate in budget cutting at this point are political clout in the inner circle of organizational management, public support and political pressure applied by the general public and by opinion leaders from outside the organization, ability to generate additional revenues, and the general reputation of the program within the organizational hierarchy. The ability to generate additional revenue may become the operant definition of productivity and value to the organization at this phase, although revenue generation capability may not outweigh other performance related variables. This proposition, among others noted in this essay, need to be investigated empirically to determine whether and under what conditions it applies.

The development of "hit lists" of vulnerable programs normally takes place in this phase, and their circulation causes no end of consterna-

tion and work productivity loss for those listed. A range of management styles are employed in communicating the degree of vulnerability to termination. In some cases information intended to be restricted to only a few decision makers leaks out across the organization. The breach of secrecy may become an issue upon which organizational leaders dwell, disregarding in part the obligation to verify or deny the validity of rumors. Whether program termination priorities are a closely held secret within the organization, and there appears to be some justification for this where the extent of the financial crisis is highly uncertain, or whether they are explained openly to employees appears to have an impact on employee morale and productivity. The best approach would seem to be where termination decisions can be explained openly, based upon a clearly defined set of organizational priorities and criteria for decision, and where priorities and criteria are consistent with those developed through a long-term planning process that has provided the opportunity for participation for a large number of employees. However, because financial crises often arise rapidly, this ideal approach may only evolve after several iterations of cuts have been made, and only where organizations have invested in planning and participation to explicitly define priorities and decision criteria. More on this topic will be noted subsequently.

Analysis of program and policy termination has developed as a field somewhat unto itself within the general rubric of cutback management practice and policy. Research on termination, in fact, preceded the widespread study of cutback. Studies of the factors that accompany and contribute to termination benefitted from previous research on general organizational survival and change dynamics on the one hand, and bankruptcy, reorganization and merger in the private sector on the other. Case studies have produced a list of lessons for would-be terminators, or for those wishing to avoid termination, that includes "don't float trial balloons," "enlarge the policy constituency," "focus attention on the policy's harm," "inhibit compromise," "recruit an outside terminator," "avoid legislative votes," "accept short-term cost increases," and "buy off the beneficiaries."[5] Research on public organization termination indicates that demonstrating the harm done by the program or policy is crucial; simply pointing out that a program is inefficient or inef-

fective is seldom sufficient to terminate it. In addition, it has been demonstrated that in the past few federal government programs have been terminated and that, when programs have been discontinued, the functions they performed have usually been picked up by other government units.[6] Often this has involved absorbing "terminated" employees as well as the former organization's mission.

The causes of termination appear to be generalizable across the public and private sectors and include competition, inadequate marketing strategy, leadership failure, poor analysis and decision-making procedures, and obsolescence. Those wishing to precipitate or avoid termination are wise to assess the political potency of termination advocates and the basis of motivation in seeking this outcome. Termination motives noted by Bardach and modified here include that a program or policy (a) is not needed, (b) is inefficient, ineffective or too expensive, (c) is outmoded and prevents implementation of new approaches to problem solving, and (d) is ideologically unacceptable.[7]

o Planning, Evaluation and Participation

In the heat of battle that usually characterizes program termination, managers may begin to recognize that in order to defend their decisions internally and externally, there is need for more careful development of cutback criteria, priorities and procedures, and perhaps for broader employee and public participation in expenditure-reduction decision making. This recognition may stimulate the deployment of program evaluators and policy analysts to measure organizational activities and corresponding public demand characteristics. Regrettably, it is at this phase that organizations typically become aware of how much they are in need of good program activity and outcome information organized in a way that enables actual program cost and benefit comparison. The capable cutback manager recognizes that cuts ought not to be made based only upon program workload measures, ill-defined program reputational factors, age, and other informal but convenient decision rules.

To cope with cutback more effectively, managers may begin to invest more resources to define the probable length and severity of fiscal crisis along with the development of processes for medium- and long-range planning. Critical at this time is the design and execution of a planning process that generates accurate and reliable information to

enable internal comparisons between programs in addition to comparisons with other organizations. Program data collected in a format that is applicable to the varied components of the organization and that permits accurate and valid response is needed. The planning process and strategic plans (plans that have the logistics of tactics and strategies laid out within them) also ought to fit with longer-term financial, debt management and capital planning. Managers may be frustrated to learn at this point the extent to which they have underinvested in or simply squandered valuable planning, program evaluation, information management and other analytical resources in the past.

The issue of participation in cutback decision making is much debated. Arguments for broader participation are often made on the grounds of fairness, contribution to employee morale and adherence to democratic management values. A much stronger argument for participation, and one that appears to be present in "Theory Z" organizations as described by Ouchi, is that employees and program constituents have information that needs to be assessed by program managers in deciding whether and how to make cuts.[9] Many of the best suggestions on how to save money and increase efficiency in the short-term are likely to come from program managers and staff if they are asked.

In the longer term it appears useful to employ external evaluators to assess the value and need for the various programs and services provided by the organization. Outside evaluators are less willing to be captured by the organization and, if properly trained and allowed to do their work without interference, are less likely to reflect the biases that inevitably are present in the minds of program managers and decision makers.[10] This also presumes that organizaitons know how to use consultants, which is often not the case. Given the constraints of managing retrenchment, managers may be reluctant to employ outsiders, may tend to prescribe results, and may not be willing to use consultants over a long enough period of time to derive the benefits of the knowledge they have developed. Evaluational consultants may not be involved to any degree in implementing their recommendations and they may not be used in employee hiring, training and development even though their skills may be useful in improving performance in these areas. And, of course, evaluational results may be ignored entirely.[11]

o Centralization of Decision Making

Whether external evaluation is employed and participation opportunities are expanded, it may be expected that some degree of centralization of decision making will result under conditions of financial crisis. Case studies support the conclusion that the dominant form of authority structure employed to manage organizational crisis, including financial crisis, is centralized decision making. While this may be necessary and useful in the short term, it is likely to be a poor long-term response. Resolutions of the New York City and post-Proposition 13 financial crises at first were managed by a few individuals, but later involved a great number of participants.[12]

Prolonged dependence on one or a few individuals to make cutback decisions may produce many of the bureaucratic weaknesses and perversions characteristic of Chinese mandarin system of management by personal influence. However, the degree of centralization of authority in financial crisis management may not be an important variable in explaining successful crisis resolution.[13] Smoothing the impact of cuts, continuity of leadership, the extent to which crisis management is politicized, form of government, ability to define and communicate organizational mission and goals, and extent to which service priorities are established and budgeted may be more important variables. The dilemma of centralization of decision authority versus broader participation has been summarized as follows:

> The crux of the retrenchment problem comes down to a fundamental trade-off, one that faces strong elected-executive localities as well as council-manager cities: Centralize and limit representative, responsive government or leave authority more or less fragmented but open to access, thereby limiting the ability of government to prioritize and target cutbacks. Either way, something of value will have to be sacrificed.[14]

o Search for Longer-Term Crisis Resolution

The phases of financial crisis management that follow are not well documented because few organizations have advanced in actual practice to the point of providing good examples for researchers to study. Hypothetically, the succeeding phases of management benefit from systematic assessment of (a) additional revenue generation alternatives, (b) the mission of the organization and its component programs, (c) program outcomes, and (d) public needs and preferences. The pressure of continued

reduction in revenue from traditional sources and the results of internal program evaluation may cause public organizations to provide fewer services than in the past, and to refine those that are continued to better fit public preferences and demand patterns.

Where prolonged acute scarcity is present, public organizations may have lost their credit ratings and ability to borrow to finance capital construction and short-term operational cash shortages. As was the case in the resolution of New York City's financial crisis, a financial emergency may not be identified to exist until an organization cannot get another loan. Where loss of credit has occurred, longer-term financial planning is needed to (a) evaluate the financial effects of program and service changes, (b) assess property and equipment leasing and liquidation options, (c) develop accurate capital asset depreciation and replacement costs and schedules, (d) improve inventory management, (e) improve cash flow management, investment practices and pension fund solvency, (f) limit debt load to fit the tax base and debt service capacities, (g) establish sufficient fund reserves to balance the budget in the event of future revenue short-fall. Long-range financial planning may require the employment of financial management consultants and may involve the participation of bankers, municipal bond market advisors and others to rebuild confidence in the accountability and credit-worthiness of the enterprise.

To improve productivity public organizations may discover that, as is the case for private organizations, long-term productivity improvement requires risk capital for investment in new equipment, employee training, additional program analysis and market research. Improving information processing and management may require purchase of word processing equipment and operator training. Improved use of executive staff time may result from computer assisted scheduling of meetings and other events, for example. Automation of financial, clerical, or other systems may demand similar investments that are expensive up-front but produce greater efficiency and cost savings over the long-term.

The most important contributions to productivity may come from the replacement of used equipment from duplicating machines to police patrol cars, when needed to prevent productivity losses resulting from breakdowns, downtime, employee frustration, increased health and safety risks

and legal liability, and reduction of the quality of services provided to citizens. In many public organizations where across-the-board and "invisible" budget cuts have been made over a multi-year period, equipment replacement alone may require substantial investment of capital.

As noted, one of the first areas of the budget reduced when revenues fall short often is personnel training. In the short-term training may be postponed, but elimination of training is likely to have a serious impact on productivity, especially where new systems and equipment are purchased. Without training, employees may be unable to operate new equipment safely or efficiently. Without the capability of providing guidance and incentives through training and development, employee morale suffers and potentially valuable human resources are likely to be lost to other organizations.

Under financial crisis decision constraints, many new solutions to organizational and social problems initially may appear too radical but later prove to be workable. For example, the city of Oakland (California) sold its museum to private investors but has continued to provide museum services under lease agreement with the new owners. Similar sale and lease-back agreements have been established in other cities. These arrangements enable local governments to reduce their maintenance and operation costs while private investment incentives help to insure proper maintenance and care for facilities. Users of facilities may be required to bear a larger proportion of costs for providing services they consume through user fees. Where this occurs, the equity implications of user fee system should be considered. Careful cost accounting may provide information regarding appropriate fee levels by income class or some other measure of ability to pay. Fee exemptions may be provided to some patron groups. Further, the public goods justification for the provision of services should not be ignored in the rush to institute user fees and changes.

o Improved Public Sector Marketing

Operating in a long-range planning orientation under conditions of continued austerity, public organizations may begin to give greater attention not only to program outcome analysis and comparison of total costs and benefits (net social benefits), but also to how they market their services to constituents. Public managers may become more sensi-

tive to the definition of marketing as something more than advertising and selling. The importance of market research to define consumer attitudes and behaviors may be recognized as vital for planning. Attention to the various components of what in the private sector is termed the marketing mix may result in better understanding of relationships between market research, program development, pricing, distribution, advertising, promotion, sales, and evaluation of public services and consumer behavior.[15] The importance of research to determine ability-to-pay and market segmentation variables may be recognized. Accompanying this recognition may be an awareness of differences between private and public sector marketing in terms of product versus service orientation, and indirect marketing in the public sector there is no consumer payment for services rendered. A market planning orientation in public organizations also recognizes that because large portions of financial support come from governments instead of directly from consumers, greater attention is needed to what may be termed internal political marketing in contrast to the external consumer marketing focus of private sector organizations. Political marketing is an essential but often misunderstood component of the public budgetary process. Most public organizations engage in a considerable degree of marketing activity, although it is often poorly organized, not coordinated between units of government and not well executed.

The desire on the part of decision makers for better information on constituent preferences may stimulate governments to develop new procedures to determine citizen attitudes toward specific types of public services. Definition of public service market segmentation through survey research may be a first step in improving government responsiveness to service quality, price, distribution and other constituent preferences. Governments may become more willing to invest in innovative communication procedures, ranging from voting by mail to computer-assisted, interactive television and telephone voting and opinion sampling systems.

Efforts to improve market preference assessment will create new problems, including information overload and finding money to finance experimentation with new communication technologies. Controlling public and employee participation may be more difficult in this context as

well. Having better information may make it more difficult to defend budget decisions based upon equity considerations as opposed to majority preference and ability-to-pay where the majority does not support equity objectives. Objection to the obligation of government to provide welfare services and ignorance of the public goods justifications for some government services appears to be implicit in some citizen-based efforts to limit government revenues and expenditures.

Conclusions

Some observers predict that over the next decade public organizations will reduce the range of services they offer, surrendering many services now provided to citizen groups, non-profit organizations, and the private sector.[16] This view indicates that some services simply may lapse, for better or worse.

Some changes in government operations should be anticipated. For example, we might expect continued development of user-pays revenue generation procedures. An increase in the already prevalent uses of private contracting, joint lease and purchase agreements, intergovernmental credit and bonding assistance, and shared service arrangements appears likely to occur. Concommitant with these changes may come a reorientation of the manner in which public financial resources are allocated to organizations. Approaches such as the public voucher system to provide consumer-citizens with money or credit to spend for services delivered directly may improve the manner in which public demand, government pricing, and other service distribution policies and procedures are defined. The search for broader and more stable revenue bases for public organizations may make them better able to survive sudden and sharp reductions in one or several sources of revenue. Greater attention has been given to the perils of intergovernmental financial dependence in the last few years, and "New Federalism" proposals promise to alter federal, state, and local government financial relationships (and also stimulate suspicion about whether new federal revenues to local jurisdictions will match new responsibilities). Better government planning and program review may result in better services, higher public service morale, and stronger citizen support for government. In the long term, a new public sector planning and market orientation may result in development of better solutions to social

problems. Some attempts at innovation inevitably will be regarded as "too utopian" due to the degree of their departure from present practices and their incorporation of new and somewhat untested technologies. Still, experimentation must be undertaken and funded sufficiently if better solutions are to be found.

Nonetheless, financial stress must be adjusted to and managed one step at a time, like any other public policy problem, cognizant of the rigidities and constraints built into our overly-hierarchical public bureaucracies. Manifestations of public organizational rigidities and constraints include overspecialization of function, devotion of inordinate amounts of time to self-defense rather than to problem solving, problem avoidance through obfuscation, resistance to the implications of new information, and a fear of adaptation to new social conditions. Inability to adapt reduces probability of survival if we accept that the principles of biological evolution apply to organizations. Recognition that these rigidites and constraints exist should cause us to devote more resources to the study of retrenchment and to the training of public decision makers, managers, policy analysts and service providers in methods for diagnosing and managing financial crisis and public organizational change.

Footnotes

1. For another list of options, see Savas, E.S., Privatizing the Public Sector. (Chatham, New Jersey: Chatham House), 1982.
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3. For example, in the area of productivity see Harry P. Hatry et al. How Effective Are Your Community Sources? (Washington, D.C.: Urban Institute, 1977); Harry P. Hatry "Current State of the Art of State and Local Productivity Improvement", in Charles Levine (ed.), Managing Fiscal Stress. (Chatham, N.J.: Chatham House, 1980): 269-280. The Levine book is a good general source for readings on cutback and its context. See also Richard Bingham et al. The Politics of Raising State and Local Revenue. (New York: Praeger, 1978). Much recent work in alternative service delivery draws on earlier research such as Robert L. Bish, The Public Economy of Metropolitan Areas. (Chicago:Markham, 1971); Robert L. Bish and Eugene Ostrom, Understanding Urban Government. (Washington, D.C.: American Enterprise Institute, 1973); E.S. Savas (ed.), Alternatives for Delivering Public Services. (Boulder, Colorado: Westview, 1977).
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13. Levine et al., The Politics of Retrenchment: 209-212.

14. Levine et al., The Politics of Retrenchment: 216.

15. Kotler, Philip, Marketing for Nonprofit Organizations. (Englewood Cliffs, N.J.: Prentice Hall, 1975); Christopher Lovelock and Charles Weinberg, Readings in Public and Nonprofit Marketing. (Palo Alto, Ca: Scientific, 1978); Michael Mokwa and Steven Permut, Government Marketing. (New York: Praeger, 1981).

16. Savas, Privatizing the Public Sector; especially 89-111 and 124-150.